Desire for Convenience Drives Marketing Costs

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America's desire for convenience foods—meats cut up, marinated, and ready for the grill; entrees in microwavable packaging; individual juice boxes for bag lunches; and the large portion of our meals prepared by foodservice companies—translated into $466 billion worth of marketing costs in 1998.

Marketing costs accounted for 80 percent of the $585 billion consumers spent for domestic farm foods, not including imported foods, in 1998. The remaining 20 percent, or $119 billion, represents the gross return paid to farmers.

The cost of providing marketing services beyond the farm gate continues to be the most persistent source of rising food expenditures. Once again, the marketing bill outpaced the general inflation rate of 1.6 percent in 1998. The marketing bill grew $21.2 billion in 1998, an increase of 4.8 percent, following a similar rise in 1997. The farm value for domestic farm foods fell 2.5 percent in 1998, while consumer expenditures for these foods grew by 3.2 percent.

The cost of marketing U.S. farm foods has increased considerably over the years, mainly because of rising costs of labor, transportation, food packaging materials, and other inputs used in marketing, and also because of the growing volume of food and the increase in convenience and services provided with the food. These rising costs have been the principal factor affecting the rise in consumer food expenditures. From 1988 to 1998, consumer expenditures for farm foods rose $186 billion. Roughly 88 percent of this increase resulted from an increase in the marketing bill.

Labor Costs Continue To Dominate the Food Marketing Picture

The cost of labor is the biggest part of the total food marketing bill, accounting for nearly half of all marketing costs (fig. 1). Labor used by assemblers, manufacturers, wholesalers, retailers, and eating

Credit: Jack Harrison

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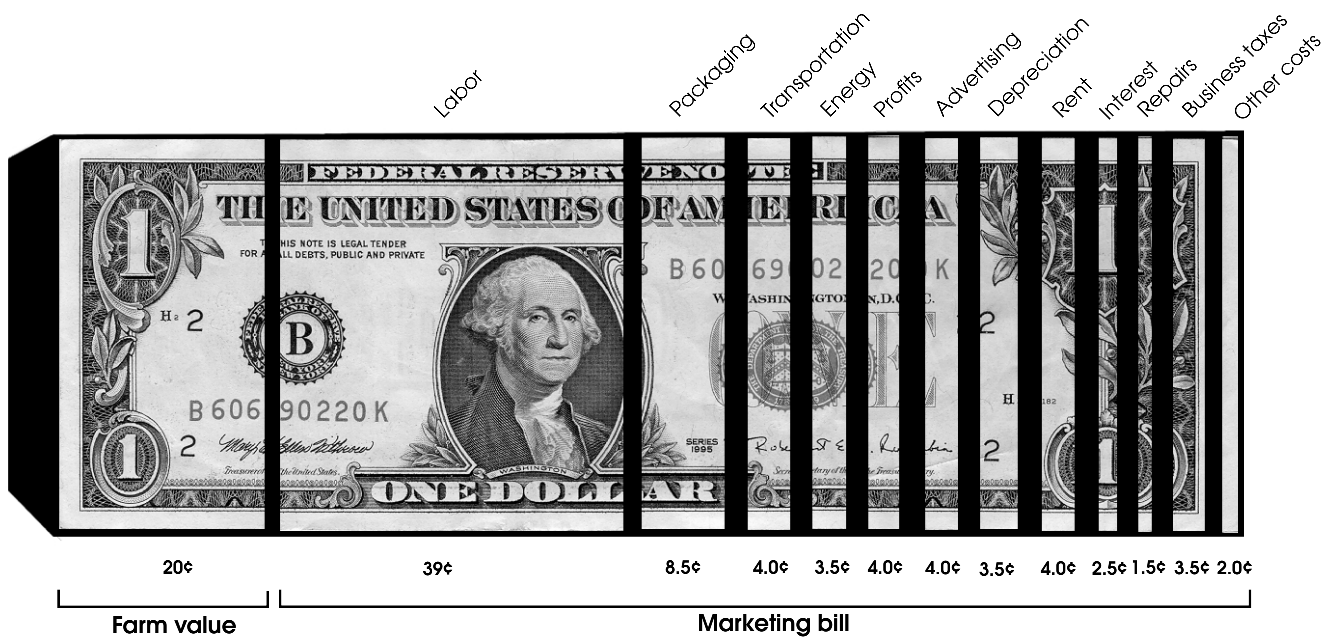
Figure 1
What a Dollar Spent for Food Paid for in 1998



Source: USDA's Economic Research Service.

places cost $228 billion in 1998, 5.1 percent higher than in 1997 and 65 percent more than in 1988.

The total number of food marketing workers in 1998 was about 13.8 million, up 1 percent from the previous year. The number of foodservice workers grew by 1.5 percent in 1998, while the number of workers in foodstores grew 0.1 percent. Foodstore employment was restrained by sluggish sales, while brisk away-from-home food sales stimulated employment growth in eating places. Employment in wholesaling grew 1.7 percent, while employment in food manufacturing was essentially unchanged. This stable employment in food manufacturing reflected long-term productivity improvements. These trends are consistent with the general pattern of the last few years.

Labor productivity in food manufacturing industries has risen moderately over the years, thereby causing a long-term decline in employment. This trend largely reflects the adoption of various technologies that have reduced industry demand for labor. On the other hand, labor productivity has declined in foodstores, reflecting increased demand for labor-intensive convenience foods prepared by supermarkets. The additional labor required to prepare these foods has raised employee hours relative to output, thereby accounting for the lowered productivity.

Food manufacturing employees' hourly earnings rose 2.8 percent in 1998, a slightly higher rate of increase than in 1997. Average hourly earnings of foodstore workers rose 4.3 percent, compared with 3.3 percent in 1997. Meanwhile, average hourly earnings of wholesaling employees rose 3.0 percent, a smaller increase than in 1997. The average hourly earnings of foodservice employees advanced at the fastest pace of any food industry sector for the third consecutive year, rising 4.8 percent. These higher growth rates generally reflect higher wages due to a tight labor supply resulting from robust economic conditions.

Wage supplements comprise about 20 percent of total labor costs. However, the cost of supplements has accelerated at a slower pace in recent years. For instance, medical costs have risen more slowly. The Consumer Price Index for medical services rose just 3.2 percent in 1998, compared with a 5.7-percent annual average increase over the last 10 years. Also, union contracts often require workers to pay a greater portion of their medical bills.

Other Inputs Add to Marketing Costs

A wide variety of other costs comprise the balance of the marketing bill, including packaging, transportation, energy, advertising, business taxes, net interest, depreciation, rent, and repairs (table 1).

Packaging is the second largest component of the marketing bill. At $50.4 billion, packaging accounted for 8.5 percent of the food dollar. Paperboard boxes and containers are the largest packaging cost and were the primary cause of higher packaging costs in 1998, rising 6.8 percent. This increase was mitigated by declines in other packaging materials. For example, plastics dropped 1.2 percent, while metal cans were 0.6 percent lower.

The energy bill for food marketing costs totaled $20.7 billion in 1998, accounting for 3.5 percent of retail food expenditures. Natural gas and electricity prices exert the greatest effect on the energy costs of processing and retailing food. The prices of alternative energy sources, such as oil, have little effect. Energy costs rose in 1998 because of higher natural gas prices and a higher volume of marketing services performed by the food industry.

Intercity truck and rail transportation for farm foods came to $24.4 billion, 4 percent of retail food expenditures in 1998. Rail freight rates rose about 3 percent, while trucking rates grew roughly 3.5 percent. Labor costs account for 40 percent of trucking expenses, with fuel comprising another 20 percent.

Advertising expenses totaled $22 billion, 4 percent of food expenditures in 1998. Food manufacturing accounts for about half of total food industry advertising expenditures, with foodservice contributing another 25 percent, and food retailing about 15 percent. A mix of print and broadcast media are used to promote food industry products. In recent years, increases in advertising expenditures have been largest for foodservice and food retail firms.

Depreciation, rent, and repairs together came to $53 billion and accounted for 9 percent of the 1998 consumer food dollar. The foodservice sector incurred about 40 percent of these costs, while foodstores made up about a quarter of the total. Manufacturing and wholesaling establishments together accounted for the remaining 35 percent. Thanks to high property rental expenses, foodservice establishments had the highest total depreciation, rent, and repair costs of any food sector.

Net interest accounts for only 2.5 percent of total consumer expenditures, but grew 34 percent during the last decade, rising to $13 billion in 1998. Most of the increase occurred in the foodstore sector, reflecting higher debt acquired due to merger and acquisition activity, particularly leveraged buyouts. Moreover, net interest grew as the result of loans booked during years of rising interest rates, such as 1995. ■

Table 1
Relative Importance of Labor Costs for Food Expenditures Has Grown Over Time

Component	1980	1985	1990	1995	1998
			Billion dollars		
Labor[1]	81.5	115.6	154.0	204.6	227.9
Packaging materials	21.0	26.9	36.5	47.7	50.4
Rail and truck transportation[2]	13.0	16.5	19.8	22.9	24.4
Fuels and electricity	9.0	13.1	15.2	18.6	20.7
Pretax corporate profits	9.9	10.4	13.2	19.5	22.2
Advertising	7.3	12.5	17.1	19.8	22.0
Depreciation	7.8	15.4	16.3	18.9	21.2
Net interest	3.4	6.1	13.5	11.6	13.0
Net rent	6.8	9.3	13.9	19.8	22.5
Repairs	3.6	4.8	6.2	7.9	9.0
Business taxes	8.3	11.7	15.7	19.1	20.6
Total marketing bill	182.7	259.0	343.6	415.7	465.8
Farm value	81.7	86.4	106.2	113.8	118.8
Consumer expenditures	264.4	345.4	449.8	529.5	584.6

[1]Includes employees' wages/salaries and health and welfare benefits.
[2]Excludes local hauling charges.
Source: USDA's Economic Research Service.